

Energy Situation Analysis Report

Last Updated: September 26, 2002

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Latest Oil Market Developments

Oil prices declined on Wednesday, September 25, with NYMEX front month crude oil futures closing at \$30.64 per barrel, down 13 cents from Tuesday's close. Tropical Storm Isidore has shut down virtually all offshore oil production platforms and the Louisiana Offshore Oil Port (LOOP) in the Gulf of Mexico, and has also begun to impact some refining operations. [more...](#)

Latest U.S. Weekly EIA Petroleum Information

The U.S. average retail price for regular gasoline decreased slightly over the last week, decreasing by 0.6 cent per gallon as of September 23 to end at 139.5 cents per gallon. This price is 9.0 cents per gallon lower than last year. U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 2.6 million barrels last week, even with an increase in crude oil imports. For the major petroleum products, motor gasoline inventories increased by 2.2 million barrels last week, while distillate fuel inventories declined by 1.6 million barrels, split almost evenly between high-sulfur and low-sulfur distillate fuel. [more...](#)

World Oil Market Highlights

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds about 5 million barrels per day of excess oil production capacity that could be brought online, almost all of which lies in OPEC countries. [more...](#)

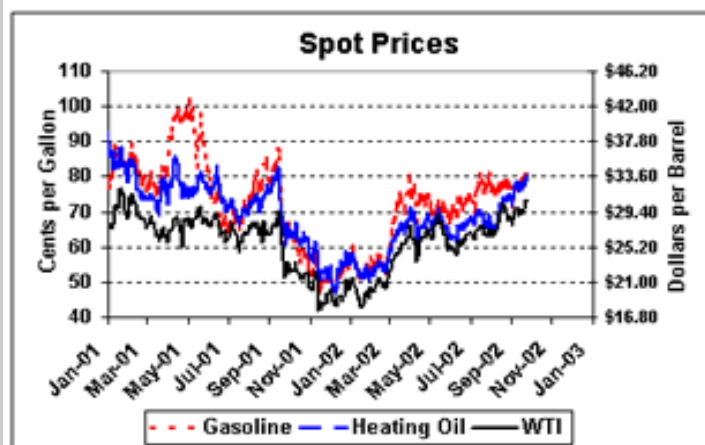
Latest U.S. Weekly Natural Gas Information

Spot prices have fallen up to 36 cents per million Btu (MMBtu) at most market locations since Monday, September 23, while prices at selected points in the Northeast and Rocky Mountains regions gained up to 6 cents per MMBtu. On Wednesday, September 25, prices tumbled between 10 and 38 cents per MMBtu as it

Energy Prices*

Petroleum Futures	9/25/02	9/24/02	Change
WTI (\$/Bbl)	30.64	30.77	-0.13
Gasoline (c/gallon)	81.69	82.92	-1.23
Heating Oil (c/gallon)	80.63	80.70	-0.07
Natural Gas (\$/MMBtu)			
Henry Hub	3.75	3.98	-0.23
California	3.32	3.63	-0.31
New York City	4.21	4.42	-0.21
Electricity (\$/Megawatthour)			
COB	30.13	31.46	-1.33
PJM West	26.86	27.55	-0.69
NEPOOL	42.63	45.13	-2.50
Average	33.48	35.40	-1.92

[*Definitions](#)



Source: Closing quote as reported by Reuters News Service

became apparent that tropical storm Isidore would not pose a significant threat to production. At the Henry Hub, prices declined by 23 cents per MMBtu to average \$3.75 per MMBtu. [more...](#)

Latest U.S. Coal Information

For the week ended September 20, the week-to-week coal prices tracked by EIA were unchanged. Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$18.00 and \$12.00 per short ton, respectively. [more...](#)

Latest U.S. Electricity Information

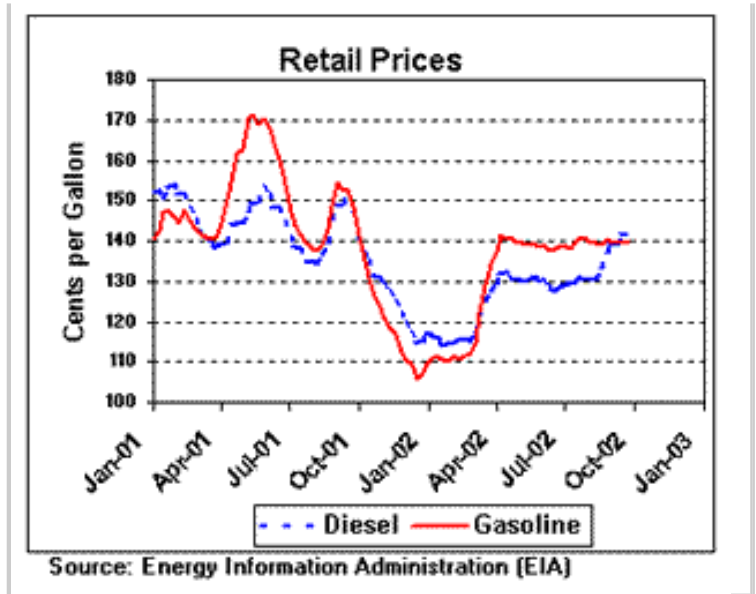
Western U.S. electricity prices have been decreasing at most of the trading centers for the past two trading days. According to Bloomberg Power Lines Report, the Bloomberg average spot price of five natural gas delivery locations in California dropped 28 cents to \$3.33 per million British thermal unit. Prices in the Northeast have been decreasing for the past several trading days as Tropical Storm Isidore was forecast to bring rain and cool weather to the region. Prices at NEPOOL have dropped from a high of \$54.38 per megawatthour on September 23 to \$42.63 per megawatthour on September 25. [more...](#)

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Latest Oil Market Developments

(updated September 26, 2002)

Oil prices declined on Wednesday, September 25, with NYMEX front month crude oil futures closing at \$30.64 per barrel, down 13 cents from Tuesday's close. Tropical Storm Isidore has shut down virtually all offshore oil production platforms and the Louisiana Offshore Oil Port (LOOP) in the Gulf of Mexico, and has also begun to impact some refining operations. The news resulted in a flurry of short-covering late in the afternoon, as traders who were caught short bought back. The buying activity boosted prices and limited earlier price declines.

In general, oil prices have been driven sharply higher (up around 50%) since the beginning of 2002 by several factors, including: 1) significant cuts in OPEC production quotas during 2001, including an OPEC agreement with top non-OPEC oil exporting countries at the end of the year (note: increased OPEC production above quota levels has mitigated this somewhat in recent months); 2) tensions in the Middle East, particularly speculation over the possibility of US military action against Iraq (the so-called "war premium"); and 3) a steep slide in US crude oil inventories.

Topics affecting **world oil markets** include:

- South Korea's Ministry of Commerce, Industry and Energy said that Saudi Arabia plans to raise production if the OPEC basket price for crude oil rose above \$28 per barrel or if a war in Iraq disrupted supplies. The statement was made following a visit by a Saudi Arabian energy delegation. OPEC's stated policy has been to raise supply if the OPEC basket price remained above \$28 per barrel for 20 days.
- Venezuela would work with other OPEC countries to increase their oil production if a war in Iraq disrupted supplies, Venezuelan Energy Minister Rafael Ramirez said. Venezuela's crude oil exports to the United States in July increased to their highest level since August 2001, according to the Energy Information Administration.
- As of September 25, 2002, the US Strategic Petroleum Reserve (SPR) contained 585.2 million barrels of oil. The SPR has a maximum drawdown capability of 4.3 million barrels per day for 90 days, with oil beginning to arrive in the marketplace 15 days after a presidential decision to initiate a drawdown. The SPR drawdown rate declines to 3.1 million barrels per day from days 91-120, to 2.1 million barrels per day for days 121-150, and to 1.2 million barrels per day for days 151-180.

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Latest U.S. Weekly EIA Petroleum Information

(last complete update: September 26, 2002)

Petroleum Inventories

U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) fell by 2.6 million barrels last week, even with an increase in crude oil imports. Commercial crude oil inventories have now fallen by 17.9 million barrels in the last four weeks, and are below the bottom end of the normal range for this time of year. In PADD II (Midwest), crude oil inventories rose by 1.0 million barrels last week after reaching the lowest level since at least 1990 in the week ending September 13. For the major petroleum products, motor gasoline inventories increased by 2.2 million barrels last week, while distillate fuel inventories declined by 1.6 million barrels, split almost evenly between high-sulfur and low-sulfur distillate fuel.

In July, distillate fuel inventories increased by only 2.5 million barrels, the lowest increase ever in EIA's database for the month of July (going back to 1963). Then, in August, distillate fuel inventories (using weekly data) fell by 4.2 million barrels, which would make that the largest draw ever in EIA's database for the month of August. Since distillate fuel inventories typically build 4-5 million barrels in August, this amounted to a downward swing of 8-9 million barrels, putting distillate fuel inventories at the end of August suddenly in the middle of the normal range and trending down! A four-million-barrel build in the week ending September 6 provided some false comfort, but draws in the next two weeks have all but wiped out that build. Once again, distillate fuel inventories are below 130 million barrels. If distillate fuel inventories don't increase by over 8 million barrels over the last 10 days of September to end at 137.8 million barrels (a very unlikely scenario), then the build from the end of April through the end of September would be the smallest ever over that time period since at least 1963!

Petroleum Imports

U.S. crude oil imports last week averaged nearly 9.0 million barrels per day, up 300,000 barrels per day compared to the previous week, but still lower than was seen during August. During the most recent four weeks, crude oil imports have averaged 8.8 million barrels per day, or nearly 600,000 barrels per day less than during the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) averaged about 800,000 barrels per day last week, while distillate fuel imports remained relatively low, averaging about 100,000 barrels per day.

Refinery Inputs and Production

U.S. crude oil refinery inputs averaged 15.2 million barrels per day during the week ending September 20, up slightly from the previous week. In PADD III (Gulf Coast), crude oil refinery inputs averaged less than 7 million barrels per day, marking the first time consecutive weeks have been below that level since March 2001. Over the last four weeks, crude oil refinery inputs have averaged about 200,000 more than last year at this time. Refinery production for motor gasoline increased significantly last week, while jet fuel and distillate fuel refinery production increased by much smaller increments.

Petroleum Demand

Total product supplied over the last four-week period averaged 19.5 million barrels per day, or about 0.7 percent more than the level last year. Motor gasoline demand has averaged 2.2 percent above last year's level over the same period, but distillate fuel and kerosene-jet fuel demand have averaged 0.3 percent and 2.1 percent less than last year's level, respectively, over the last four weeks.

Spot Prices (updated September 24, 2002)

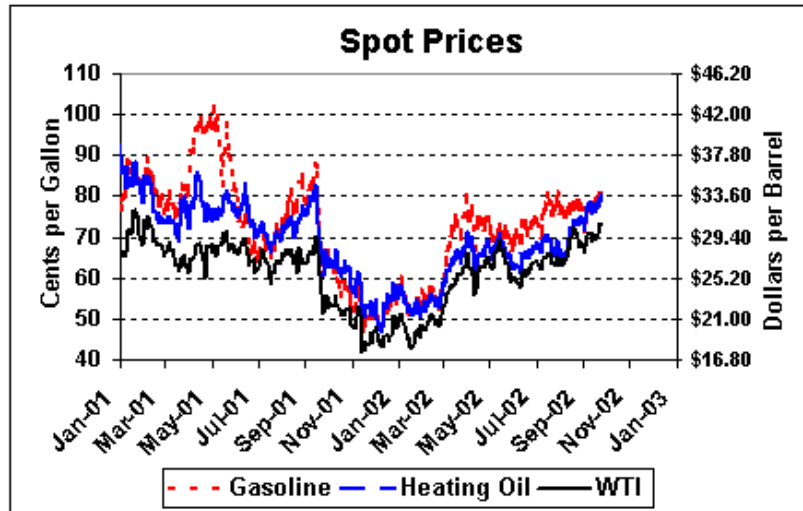
The average world crude oil spot price on September 20, 2002 was \$26.73 per barrel, down \$0.06 per barrel from the previous week but \$1.59 per barrel more than last year. The price for West Texas Intermediate (WTI) crude oil was \$29.65 per barrel on September 20, 2002, \$0.18 per barrel lower than last week and \$4.19 per barrel higher than last year. The spot price for conventional gasoline in the New York Harbor was 79.78 cents per gallon, up 2.03 cents per gallon from last week and 7.43 cents per gallon higher than a year ago. The spot price for low sulfur diesel fuel in the New York Harbor was 79.48 cents per gallon, 0.17 cent per gallon below last week but 9.65 cents per gallon more than last year.

Retail Gasoline and Diesel Fuel Prices (updated September 24, 2002)

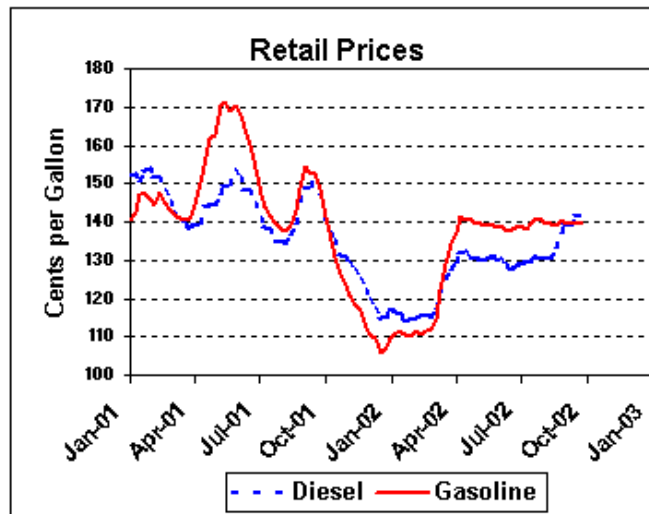
The U.S. average retail price for regular gasoline decreased slightly over the last week, decreasing by 0.6 cent per gallon as of September 23 to end at 139.5 cents per gallon. This price is 9.0 cents per gallon lower than last year. Retail diesel fuel prices increased for the sixth week in a row, rising by 0.3 cent per gallon to a national average of 141.7 cents per gallon as of September 23. U.S. diesel fuel prices have shot up 11.4 cents per gallon since August 12, but last week's increase was much smaller than gains in previous weeks. In recent years, diesel prices have been higher in the fall and winter, as harvesting and colder weather put increased pressure on diesel and heating oil prices. Retail diesel prices were up throughout most of the country, with the largest price increases occurring in the Midwest and Rocky Mountain regions, which each saw prices rise by 0.9 cent per gallon to end at 140.8 cents per gallon and 146.7 cents per gallon. Prices along the West Coast fell by 2.3 cents per gallon to end at 153.4 cents per gallon.

U.S. Petroleum Prices

(updated September 26, 2002)



Source: Closing quote as reported by Reuters News Service



Source: Energy Information Administration (EIA)

Crude Oil and Oil Products Price Table

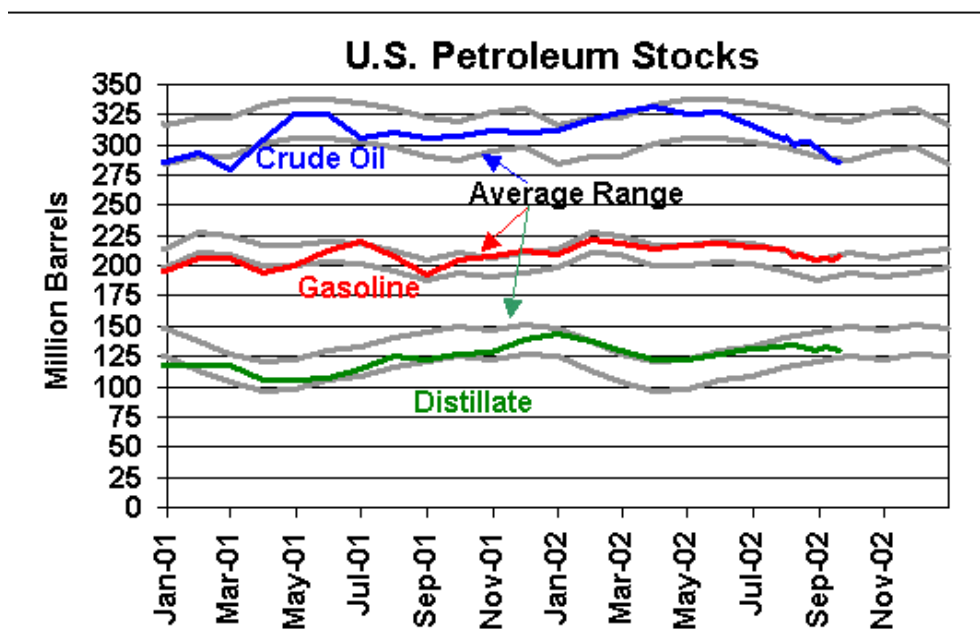
Date	WTI Crude Oil		Gasoline		Heating Oil		Kerojet	Propane		EIA Weekly Retail	
	Spot	Futures	Spot	Futures	Spot	Futures	Spot	Spot	Spot	US Average	
	Cushing		NYH		NYH		NYH	Mt. Belvieu	Conway	Gasoline	Diesel
	\$/bbl	\$/bbl	cents per gallon		cents per gallon		c/gal	cents per gallon		cents per gallon	
8/8/2002	\$26.67	\$26.67	74.95	75.54	65.83	67.24	71.38	38.75	39.19	139.3	130.3
8/9/2002	\$26.87	\$26.86	75.43	75.50	65.43	67.18	71.18	39.19	39.19		
8/12/2002	\$27.84	\$27.86	76.28	77.75	67.75	69.46	73.32	40.25	40.19		
8/13/2002	\$28.35	\$27.90	76.98	77.38	68.80	69.42	74.38	40.13	40.25		
8/14/2002	\$28.19	\$28.15	75.88	77.64	68.73	70.14	74.48	40.88	41.63		
8/15/2002	\$28.99	\$29.06	77.82	79.76	71.48	72.78	76.48	41.50	41.75	139.2	133.3
8/16/2002	\$29.24	\$29.33	76.50	79.19	72.00	73.45	77.00	41.50	41.88		
8/19/2002	\$29.86	\$29.84	76.50	79.09	72.05	73.39	76.90	42.13	42.88		
8/20/2002	\$30.12	\$30.11	77.70	80.03	72.20	73.80	76.95	42.13	42.88		
8/21/2002	\$30.37	\$29.24	78.19	80.66	74.00	75.42	79.05	42.88	43.63		
8/22/2002	\$30.11	\$28.84	77.08	79.66	73.91	74.82	78.12	43.07	43.82	140.3	137.0
8/23/2002	\$29.99	\$28.63	76.85	79.52	73.40	73.90	77.88	43.38	43.32		
8/26/2002	\$29.23	\$29.28	79.05	82.11	73.55	75.11	78.13	44.75	43.88		
8/27/2002	\$28.84	\$28.83	78.85	81.80	73.88	75.01	78.25	44.75	43.88		
8/28/2002	\$28.31	\$28.34	76.68	80.18	73.57	74.45	77.73	44.88	43.25		
8/29/2002	\$28.83	\$28.92	77.87	81.32	74.20	75.39	78.43	45.00	43.25	139.4	138.8
8/30/2002	\$28.97	\$28.98	77.32	81.42	74.93	74.82	79.03	45.19	43.13		
9/2/2002	NA	NA	NA	NA	NA	NA	NA	NA	NA		
9/3/2002	\$27.76	\$27.79	71.18	74.52	71.55	72.81	75.68	44.13	42.38		
9/4/2002	\$28.28	\$28.27	73.35	76.22	73.78	75.03	78.15	45.01	42.88		
9/5/2002	\$29.06	\$28.98	75.18	77.66	76.03	77.31	80.18	45.63	44.38	139.5	139.6
9/6/2002	\$29.51	\$29.61	76.68	78.63	77.00	78.39	81.15	46.75	45.50		
9/9/2002	\$29.80	\$29.73	77.20	79.00	77.55	78.62	82.05	46.82	45.75		
9/10/2002	\$29.62	\$29.73	77.70	79.94	77.85	79.27	82.20	47.57	46.25		
9/11/2002	\$29.77	\$29.77	77.60	80.55	77.65	78.97	82.20	47.38	46.00		
9/12/2002	\$28.95	\$28.85	75.55	78.54	75.75	76.58	80.10	46.88	45.25	140.1	141.4
9/13/2002	\$29.83	\$29.81	77.75	80.56	77.75	78.67	82.10	47.38	45.94		
9/16/2002	\$29.14	\$29.67	77.30	79.36	76.20	78.37	80.80	47.44	45.63		
9/17/2002	\$29.08	\$29.08	77.50	77.63	76.85	77.23	81.53	46.50	45.00		
9/18/2002	\$29.57	\$29.48	79.10	79.82	77.90	78.91	82.83	47.57	46.44		
9/19/2002	\$29.49	\$29.50	79.30	80.08	77.85	78.81	82.63	47.57	46.32	139.5	141.7
9/20/2002	\$29.65	\$29.61	79.78	81.41	77.45	78.70	82.00	47.88	47.25		
9/23/2002	\$30.85	\$30.71	79.78	84.27	77.45	80.57	82.00	48.75	47.75		
9/24/2002	\$30.79	\$30.77	80.85	82.92	79.40	80.70	83.53	48.63	47.75		
9/25/2002	\$30.69	\$30.64	80.63	81.69	79.70	80.63	83.68	47.51	46.69		

Source: Spot and futures closing quotes as reported by Reuters News Service, retail prices reported by EIA

Energy Situation Analysis Report

U.S. Petroleum Supply

(Thousand Barrels per Day)	Four Weeks Ending		vs. Year Ago	
	9/20/2002	9/20/2001	Diff.	% Diff.
Refinery Activity				
Crude Oil Input	15,277	15,087	190	1.3%
Operable Capacity	16,800	16,559	241	1.5%
Operable Capacity Utilization (%)	92.0%	92.6%	-0.6%	
Production				
Motor Gasoline	8,425	8,348	77	0.9%
Jet Fuel	1,564	1,477	87	5.9%
Distillate Fuel Oil	3,586	3,634	-48	-1.3%
Imports				
Crude Oil (incl. SPR)	8,798	9,353	-555	-5.9%
Motor Gasoline	796	838	-42	-5.0%
Jet Fuel	116	152	-36	-23.8%
Distillate Fuel Oil	184	283	-99	-35.0%
Total	10,973	11,755	-782	-6.7%
Exports				
Crude Oil	29	14	15	101.0%
Products	904	882	22	2.5%
Total	933	897	36	4.1%
Products Supplied				
Motor Gasoline	8,876	8,684	192	2.2%
Jet Fuel	1,555	1,589	-34	-2.1%
Distillate Fuel Oil	3,680	3,690	-10	-0.3%
Total	19,524	19,382	142	0.7%
Stocks (Million Barrels)				
	9/20/2002	9/20/2001	Diff.	% Diff.
Crude Oil (excl. SPR)	285.2	308.8	-23.6	-7.6%
Motor Gasoline	207.2	201.3	5.9	2.9%
Jet Fuel	42.0	42.4	-0.4	-0.9%
Distillate Fuel Oil	129.8	125.2	4.6	3.7%
Total (excl. SPR)	1,002.9	1,023.3	-20.4	-2.0%



Source: Energy Information Administration, Weekly Petroleum Status Report, Petroleum Supply Monthly.

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World Oil Market Highlights

(updated September 26, 2002)

According to [fourth quarter 2002 estimates](#), the world (excluding Iraq) holds about 5 million barrels per day of excess oil production capacity that could be brought online, almost all of which lies in OPEC countries.

OPEC Crude Oil Production ¹ (Thousand barrels per day)					
	3Q 2002 Production	4Q 2002 Production	1/01/02 Quota ²	2002 Production Capacity ³	4Q Surplus Capacity ³
Algeria	850	870	693	1,100	230
Indonesia	1,110	1,095	1,125	1,200	105
Iran	3,400	3,400	3,186	3,850	450
Kuwait ⁴	1,910	1,920	1,741	2,400	480
Libya	1,320	1,330	1,162	1,400	70
Nigeria	1,926	2,010	1,787	2,300	290
Qatar	630	680	562	850	170
Saudi Arabia ⁴	7,567	7,600	7,053	10,000-10,500 ⁵	2,400-2,900 ⁵
UAE ⁶	1,990	2,010	1,894	2,600	590
Venezuela ⁷	2,732	2,745	2,497	2,750	5
OPEC 10 Crude Oil Total	23,435	23,660	21,700	28,450-28,950⁵	4,790-5,290⁵
Iraq ⁸	1,971	1,995	N/A	3,050	1,055

OPEC Crude Oil Total	25,406	25,655	N/A	31,500-32,000⁵	5,845-6,345⁵
Other Liquids ⁹	2,751	2,751	N/A		
Total OPEC Production	28,157	28,406	N/A		

NA: Not Applicable

¹Crude oil does not include lease condensate or natural gas liquids.

²Quotas are based on crude oil production only.

³Maximum sustainable production capacity, defined as the maximum amount of production that: 1) could be brought online within a period of 30 days; and 2) sustained for at least 90 days.

⁴Kuwaiti and Saudi Arabian figures each include half of the production from the Neutral Zone between the two countries. Saudi Arabian production also includes oil produced from its offshore Abu Safa field on behalf of Bahrain.

⁵ Saudi Arabia is the only country with the capability to further increase its capacity significantly within 90 days. Saudi Arabia can increase its sustainable production capacity to 10 million barrels per day within 30 days and to 10.5 million barrels per day within 90 days. As a result, the estimates for Saudi Arabia are as shown as a range, with the lower figure using the 30 days' definition and the upper end reflecting Saudi Arabia's 90 days' capability. OPEC's surplus capacity estimates are also shown as a range for this reason.

⁶The UAE is a federation of seven emirates. The quota applies only to the emirate of Abu Dhabi, which controls the vast majority of the UAE's economic and resource wealth.

⁷Venezuelan capacity and production numbers exclude extra heavy crude oil used to produce Orimulsion.

⁸Iraqi oil exports are approved by the United Nations under the oil-for-food program for Iraq established by Security Council Resolution 986 (April 1995) and subsequent resolutions. As a result, Iraqi production and exports have not been a part of any recent OPEC agreements. Resolution 986 limited the sale of Iraqi crude oil over six-month periods to specified dollar amounts. However, the Security Council voted to remove any limits on the amount of oil Iraq could export in December 1999.

⁹Other liquids include lease condensate, natural gas liquids, and other liquids including volume gains from refinery processing.

Major Sources of U.S. Petroleum Imports, Jan.-May 2002*			
(all volumes in million barrels per day)			
	Total Oil Imports	Crude Oil Imports	Petroleum Product Imports
Canada	1.91	1.45	0.46
Saudi Arabia	1.52	1.50	0.02
Mexico	1.48	1.45	0.03
Venezuela	1.33	1.14	0.19
Iraq	0.70	0.70	0.00
Nigeria	0.54	0.51	0.03
United Kingdom	0.39	0.31	0.08
Norway	0.37	0.33	0.04
Algeria	0.32	0.04	0.28

Angola	0.32	0.31	0.01
Total Imports	11.15	8.86	2.29

** Table includes all countries from which the U.S. imported more than 300,000 barrels per day in Jan.-May 2002.*

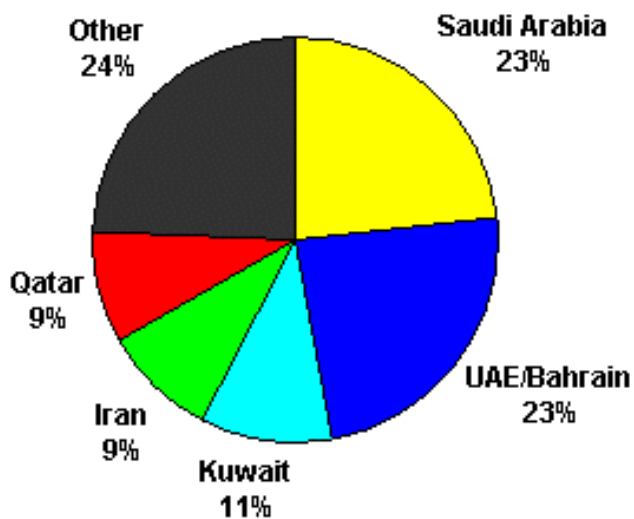
Top World Oil Net Exporters, Jan.-May 2002*		
	Country	Net Exports (million barrels per day)
1)	Saudi Arabia	6.64
2)	Russia	4.81
3)	Norway	3.18
4)	Iran	2.43
5)	Venezuela	2.34
6)	United Arab Emirates	1.92
7)	Nigeria	1.86
8)	Iraq	1.65
9)	Kuwait	1.60
10)	Mexico	1.67
11)	Algeria	1.21
12)	Libya	1.17

**Table includes all countries with net exports exceeding 1 million barrels per day in Jan.-May 2002.*

During the first five months of 2002, about half of U.S. crude oil imports came from the Western Hemisphere (17% from South America, 16% from Mexico, 15% from Canada, 2% from the Caribbean), while 27% came from the Persian Gulf region (17% from Saudi Arabia, 8% from Iraq, 2% from Kuwait).

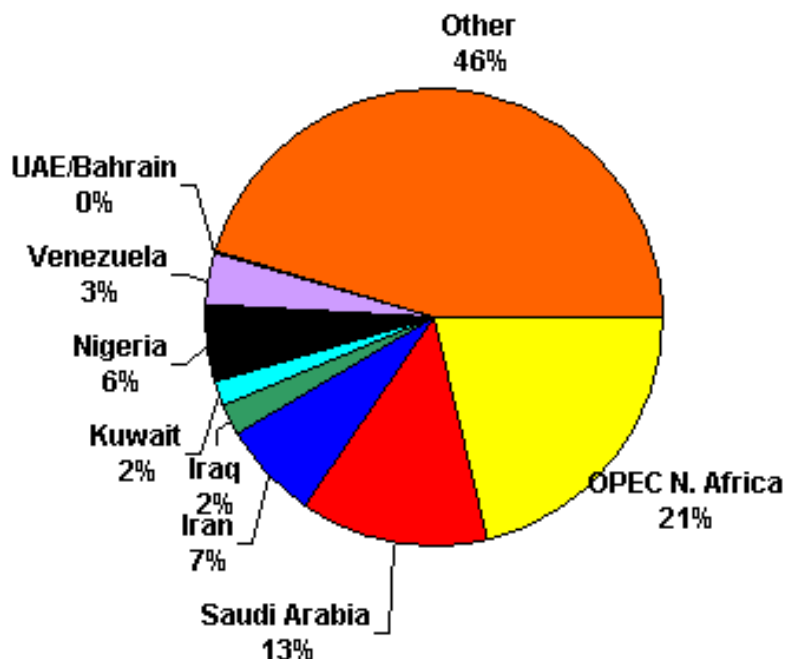
In general, OECD Europe depends far more heavily on the Persian Gulf and North Africa for oil imports than the United States. During the first quarter of 2002, about 25% of OECD Europe's net oil imports came from the Persian Gulf (mainly Saudi Arabia, Iran, Iraq, and Kuwait), around 28% from Africa (mainly Libya, Algeria, and Nigeria), and much of the remainder from Russia. Japan receives over three-quarters of its oil supplies from the Persian Gulf (mainly the UAE, Saudi Arabia, Kuwait, Iran, and Qatar) with the remainder coming from Indonesia, China, and other sources.

**Japanese Net Oil Imports by Country,
1Q 2002**



Total=5.53 million barrels per day

**OECD European Net Oil Imports
by Country, 1Q 2002**



Total=8.21 million barrels per day

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Definitions

Petroleum

WTI – West Texas Intermediate (for the purposes of this table, prices provided are near month futures price) Cushing OK.

Bbl – Barrel (42 gallons).

C's – cents.

Natural Gas

Henry Hub – A pipeline hub on the Louisiana Gulf coast. It is the delivery point for the natural gas futures contract on the New York Mercantile Exchange (NYMEX).

Electricity

COB – average price of electricity traded at the California-Oregon and Nevada-Oregon border.

Palo Verde - average price of electricity traded at Palo Verde and West Wing Arizona.

Average - average price of electricity traded at all locations.



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Latest U.S. Weekly Natural Gas Information

(updated September 26, 2002)

[Industry/Market Developments](#)

FERC Chief Judge Finds El Paso Corporation Exercised Market Power During California Energy Crisis:

In an initial decision issued on Monday, September 23, Chief Administrative Law Judge Curtis L. Wagner, Jr. found that El Paso Corporation withheld "extremely large amounts of capacity" on its pipeline system for delivery of natural gas to the southern California border in the period November 2000-March 2001, during which natural gas and electric power prices in California reached unprecedented levels. Average daily spot gas prices on both the Southern California Gas Company (SOCAL) and Pacific Gas and Electric Company systems spiked to more than \$59 and \$50 per per million Btu (MMBtu), respectively. Wagner concluded that El Paso withheld up to 696 MMcf per day of pipeline capacity for California delivery by various means, including not operating the pipeline at the maximum allowable operating pressure, conducting unnecessary maintenance, and simply choosing not to use available capacity to flow gas to at least one California receipt point. Stating that El Paso's operations constituted a clear and unlawful exercise of market power, Wagner recommended that the full Commission begin proceedings to penalize El Paso.

FERC Approves U.S. Leg Of Millennium Pipeline Project: Last Wednesday (September 18), the FERC issued a pipeline certificate for the U.S. segment of the much-delayed Millennium Pipeline, which is intended to bring gas from Canada to the New York City market area. Originally proposed in December 1997, the pipeline would stretch about 442 miles from Dawn, Ontario, near Lake Erie to the New York City area, providing up to 700 MMcf per day of additional capacity. U.S. sponsors of the pipeline include Columbia Gas Transmission (which has the majority interest and will develop and operate the pipeline), MCN Energy Group, and Westcoast Energy (a subsidiary of Duke Energy). One of the major causes of delay for project approval had been resistance of the city of Mount Vernon, NY, to the original route that had the pipeline passing directly through the city. The developers and the city were able to find a mutually agreeable compromise, clearing the way for FERC approval. However, the Canadian leg of the project has yet to be approved by Canada's National Energy Board (NEB). The Canadian sponsors, TransCanada PipeLines and Saint Clair Pipeline, Ltd., who had applications pending before the NEB, withdrew them last August when the U.S. approval process dragged on and on.

[Storage](#)

Working gas in storage was 2,991 Bcf for the week ended Friday, September 20, 2002, according to the EIA Weekly Natural Gas Storage Report. This is 11.1 percent above the 5-year average for the report week, and almost 5 percent above the level last year for the same week. The implied net injections were 67 Bcf, which is roughly 8 percent below the 5-year average of 73 Bcf for the report week. If net injections continue to approximate the 5-year average through October, then working gas in storage will

be close to 3,300 Bcf when the refill season ends. This exceeds last year's working gas stocks at the beginning of the heating season by about 5 percent.

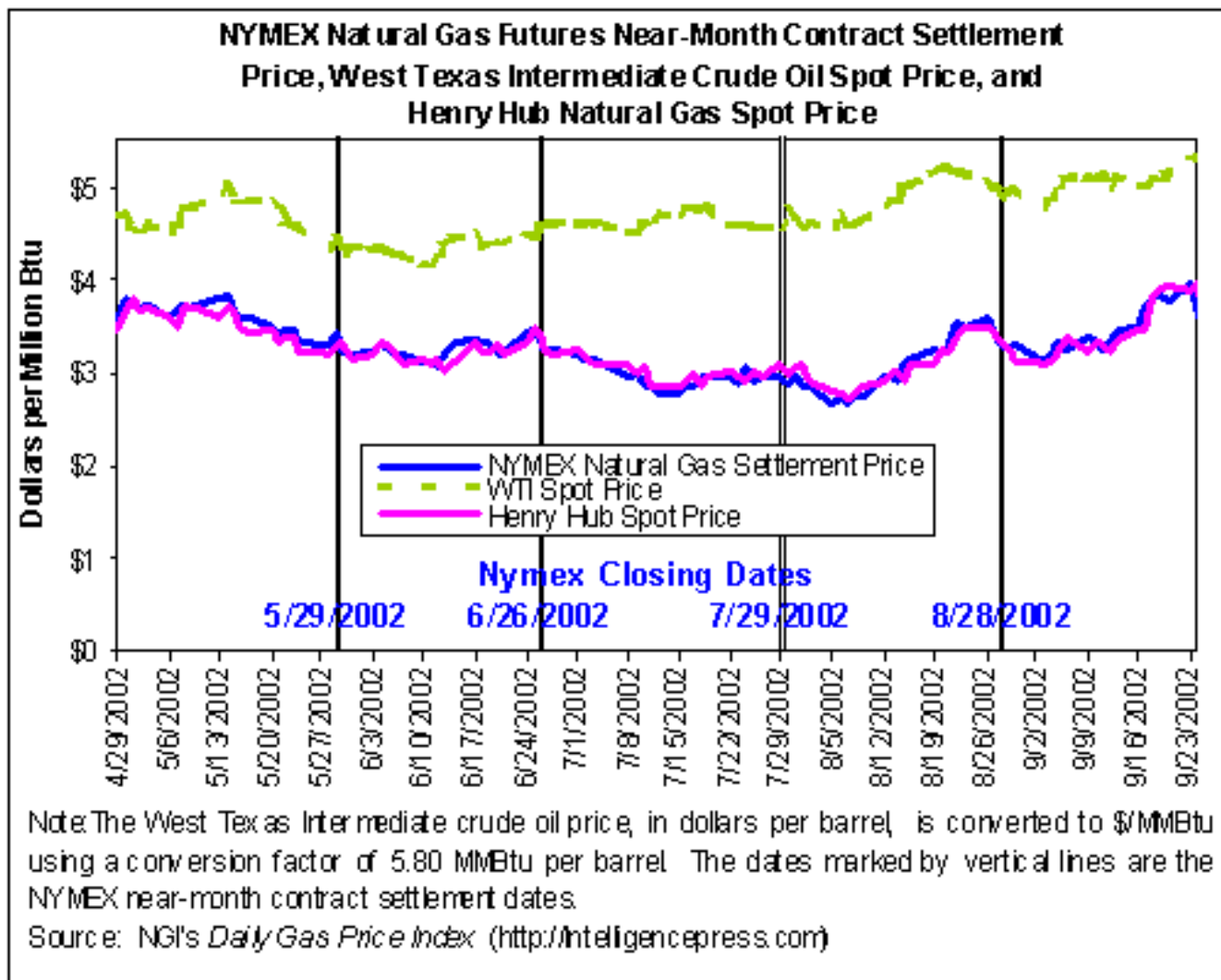
All Volumes in Bcf	Current Stocks 9/20/2002	Estimated Prior 5-year (1997-2001) Average	Percent Difference from 5-Year Average	Implied Net Change from Last Week	One- Week Prior Stocks 9/13/2002
East Region	1,732	1,646	5.2%	45	1,687
West Region	399	338	18.0%	5	394
Producing Region	860	709	21.3%	17	843
Total Lower 48	2,991	2,692	11.1%	67	2,924

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database.

Prices:

Spot prices have fallen up to 36 cents per million Btu (MMBtu) at most market locations since Monday, September 23, while prices at selected points in the Northeast and Rocky Mountains regions gained up to 6 cents per MMBtu. At the Henry Hub, prices declined 12 cents per MMBtu since Monday to average \$3.75 per MMBtu. Prices climbed on Tuesday, as Isidore re-entered the Gulf of Mexico after stalling near the Yucatan Peninsula in Mexico early in the week, and was expected to regain hurricane-force winds. However, the storm moved briskly up the Gulf at about 7 miles per hour, and was unable to strengthen before making landfall early this morning at Grand Isle, Louisiana. Production shut-ins of more than 4 Bcf per day, according to some sources, contributed to some of the price increases as well as concerns that Hurricane Isidore might wreak havoc on production facilities in the Gulf region. On Wednesday, September 25, prices tumbled between 10 and 38 cents per MMBtu as it became apparent that the storm would not pose a significant threat to production.

At the NYMEX, the price of the futures contract for October delivery at the Henry Hub declined, falling over 48 cents per MMBtu since Monday, September 23, to settle at \$3.494 per MMBtu on Wednesday, September 25. Similarly, prices of the futures contracts for delivery during the heating season months all climbed between 4 and 30 cents per MMBtu since Monday, September 23.



<i>Trade Date (All prices in \$ per MMBtu)</i>	California Composite Average Price*	Henry Hub	New York City	Chicago	NYMEX futures contract-October delivery	NYMEX futures contract-November delivery
8/28/2002	3.05	3.33	3.49	3.25	3.403	3.673
8/29/2002	3.01	3.26	3.43	3.22	3.250	3.555
8/30/2002	2.82	3.12	3.37	3.13	3.296	3.626
9/3/2002	2.93	3.10	3.41	3.12	3.132	3.487
9/4/2002	2.93	3.12	3.44	3.15	3.193	3.543
9/5/2002	2.96	3.19	3.50	3.20	3.342	3.654
9/6/2002	3.07	3.38	3.75	3.40	3.265	3.605
9/9/2002	2.98	3.24	3.62	3.23	3.399	3.744
9/10/2002	3.12	3.35	3.62	3.36	3.356	3.734
9/11/2002	3.13	3.32	3.60	3.35	3.250	3.645
9/12/2002	3.11	3.22	3.49	3.23	3.329	3.720
9/13/2002	3.22	3.36	3.59	3.33	3.467	3.842
9/16/2002	3.36	3.44	3.80	3.45	3.507	3.866
9/17/2002	3.39	3.46	3.80	3.44	3.679	3.977
9/18/2002	3.57	3.79	4.16	3.80	3.787	4.070
9/19/2002	3.65	3.89	4.19	3.90	3.856	4.106
9/20/2002	3.51	3.94	4.27	3.85	3.758	3.992
9/23/2002	3.64	3.87	4.19	3.80	3.978	4.175
9/24/2002	3.63	3.98	4.42	3.86	3.742	3.929
9/25/2002	3.32	3.75	4.21	3.56	3.494	3.793

* Average of NGI's reported average prices for: Malin, PG&E citygate, and Southern California Border Average.

Source: NGI's Daily Gas Price Index (<http://intelligencepress.com>)

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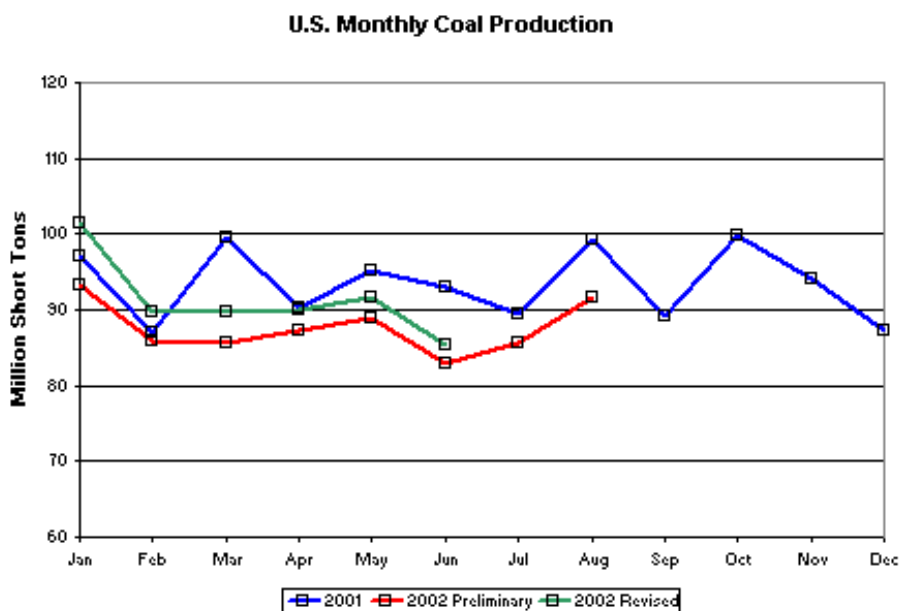
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Latest U.S. Coal Information

(updated September 24, 2002)

Coal Production

For the week ended September 14, rail car loadings of coal were 1.1% lower while national [coal production](#) was 1.5% lower, compared to year-ago levels. Year-to-date, western U.S. coal production is 0.6% below the levels of a year ago, whereas eastern U.S. coal production is estimated to be 6.0% below last year's level. The revised estimated production for the first 8 months of 2002 is 725.2 million short tons (mst), 3.4% lower than the 750.7 mst in the first 8 months of 2001. The revised estimate has been updated using Mine Safety and Health Administration coal production survey data for the second quarter 2002.



Lower production since the first quarter of 2002 results from large coal stockpiles at mines and at consuming facilities due to slowed economic activity and an extended spring period of low seasonal demand at many electric power plants. Since July, hot weather in much of the west and Midwest has reestablished more normal demand, but has consumed only part of the high consumer stocks. EIA estimates that coal stockpiled in the electric power sector at the end of March was 29.5% higher than in March 2001, and that by May 2002 stockpiled coal was 18.2% higher than 12 months earlier. In the first and second quarters of 2002, coal production exceeded coal use and consequently stockpiles built up much above planned levels.

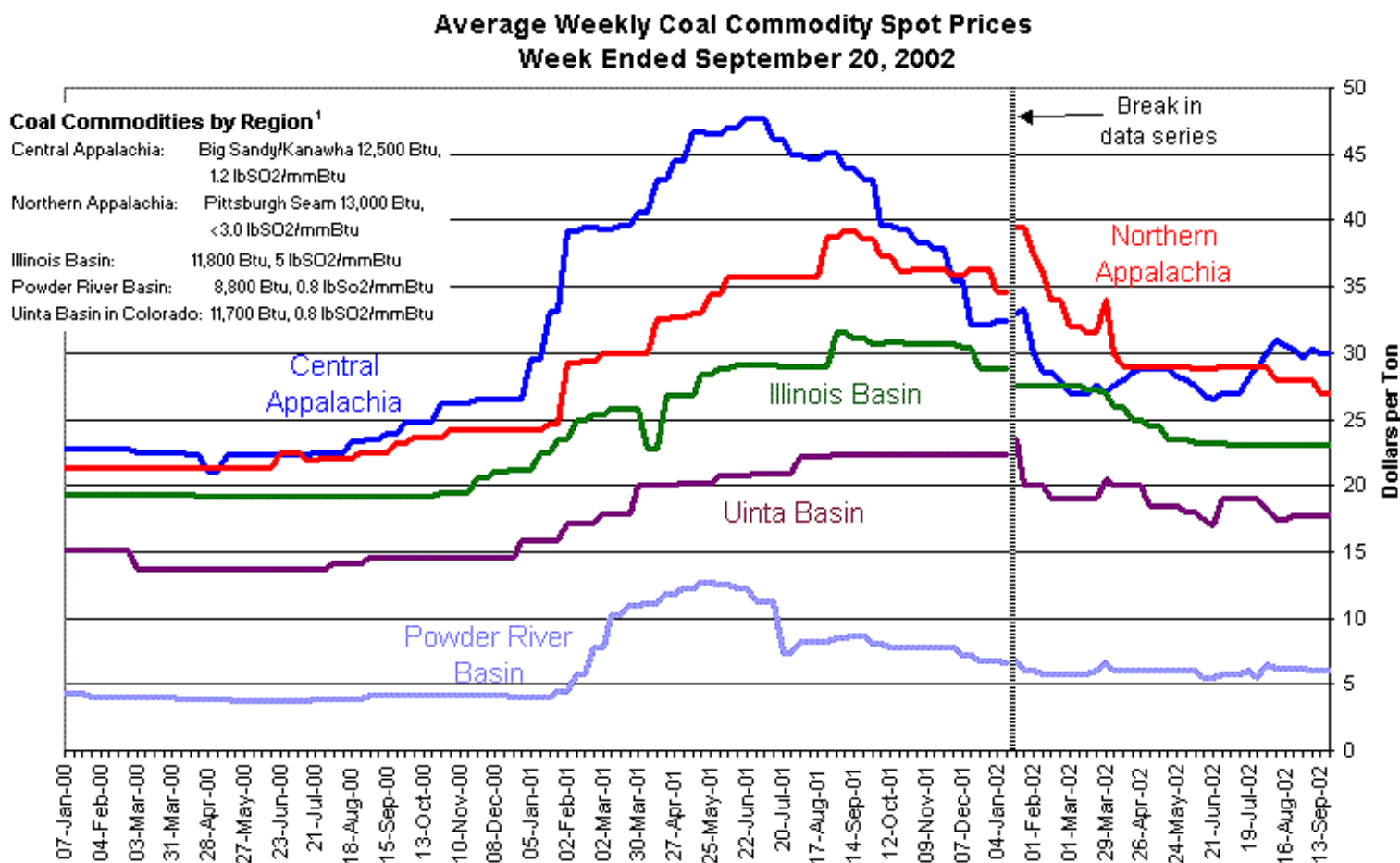
Cumulative weekly coal production volumes are down more (in absolute terms) than cumulative rail car loadings. This reflects a rundown in producer and distributor stockpiles as a greater-than-usual portion of coal shipments are loaded from previously mined production. The stock rundown (and its dampening impact on production) will continue until coal stockpiles attain normal levels.

It appears that there was about a 30 million ton overage in the supply chain following the first quarter of 2002, so it was expected to take several months of curtailed production to reduce the excess producer and distributor stocks. Would-be buyers are finding coal producers holding firm on price demands. Analysts at a recent Lehman Brothers conference believe that consumer stockpiles at the end of August are still higher than normal for the time of year—possibly about a 10 million ton overage. While some eastern mines are back in production, the major suppliers have kept a number of large mines idle awaiting better prices for contract coal. Supplies of eastern compliance coal have reportedly been tight as a protracted pricing standoff continues and most buyers, with still a comfortable stockpile cushion, forestall buying activity.

Coal Prices

For the week ended September 20, the week-to-week coal prices tracked by EIA were unchanged (graph below). Mixed coal price movements in recent weeks, but with no overall trend, mirror the differing opinions as to whether prices will continue to decline, and reflect hesitancy among coal buyers.

Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$18.00 and \$12.00 per short ton, respectively. Compared to the previous floor in the summer of 2000, prior to the 2001 escalation, the latest indexed spot prices of \$30.00 per short ton for Central Appalachian and \$27.00 per short ton for Northern Appalachian coal are higher by 35% and 27% respectively. Other prices are also running higher than the summer 2000 base: by 29% for the Uinta Basin, 20% for the Illinois Basin, and 60% for the Powder River Basin.



¹Prior to January 11, 2002, EIA averaged 12-month "forward" spot prices for several coal specifications; after that date, coal prices shown are for a relatively high-Btu coal selected in each region, for delivery in the "prompt" quarter. The "prompt quarter" is the next calendar quarter, with quarters shifting forward after the 15th of the month preceding each quarter's end.

Source: with permission, selected from listed prices in Platts Coal Outlook, "Weekly Price Survey"

Over-the-counter (OTC) trading volumes on the [NYMEX](#) were low throughout the month of August. The past week saw, again, limited activity. Offered prices for 2002 deliveries dipped to \$28.70 with all months in 2003 remaining above \$30.00.

Market Trends

Speaking September 23 at the Platts Coal Marketing Days symposium in Pittsburgh, fuel buyers for three large energy conglomerates described their view of recent coal market trends. At least for large coal purchasing entities, big players have gained "economies of

scale" in their coal purchases during 2002. Tom Mason of Cinergy reported that the advantages cut both ways-there are fewer but larger coal companies and there are larger energy/electricity producers. The "market clout of utilities has been offset by market clout of coal companies," he said. At least that was the case in 2000 and 2001. In 2002, however, the utilities gained the advantage. He expects 2003 to be "a dead heat" (Platts Coal Trader, September 24, 2002).

Although this is good, for now, for large coal purchasers, the outlook is complicated. It is not clear that smaller coal purchasers have been able to find similarly low coal prices, as average forward prices continue relatively level and reported purchasing activity is restrained. Following lower electricity demand, even NRG Energy, the third largest independent U.S. power producer, is experiencing credit problems and is limiting coal purchases to "just in time" as opposed to "just in case." Meanwhile, coal purchasers who can are keeping or building above-average inventories in anticipation of a cold winter and possible coal strikes in the East. Much of the trading that is getting done is said to be by old-fashioned direct contact rather than the internet-based e-trading that was on the rise until this year.

For the time being, coal producers continue to keep some capacity offline to stabilize prices, while coal-consumers plan for continuing diminished demand. The outlook for delayed growth in electricity demand is reflected in EIA's figures for electricity generation capacity additions: 37.0 gigawatts delayed past 2002 and 5.5 gigawatts canceled (<http://www.eia.doe.gov/cneaf/electricity/page/capacity/capacity.html>). While most of the planned capacity was natural gas-fired, coal-fired plants do not show up because they are longer-term projects.

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Latest U.S. Electricity Information

(updated September 26, 2002)

Selected Wholesale Electricity Prices: Western U.S. electricity prices have been decreasing at most of the trading centers for the past two trading days. In California, electricity and natural gas prices dropped as temperatures returned to normal, down from the highs experienced earlier in the week. According to Bloomberg Power Lines Report, the Bloomberg average spot price of five natural gas delivery locations in California dropped 28 cents to \$3.33 per million British thermal unit. Natural gas is used to fuel about 53 percent of California's generating assets. At the NP-15, California's northern transmission grid, electricity prices dropped over 9 percent to \$36.08 per megawatthour on September 25. The SP-15, California's southern transmission grid, also saw prices decrease nearly 9 percent to \$36.67 per megawatthour. In the desert southwest prices have been falling despite hot weather, as available generation has been able to cover demand. At the Four Corners trading center, prices have decreased 6 percent, over the past two trading days, to \$33.50 per megawatthour on September 25.

Electricity prices in the Mid-continent region have been decreasing for four consecutive trading days as cooler weather has remained in the region lowering demand. Cinergy's price, over the last four trading days, has decreased 41 percent to \$21.05 per megawatthour on September 25.

In the Southeast U.S., prices have also fallen for four consecutive trading days as cooler weather has set into the area, lowering the demand for electricity. Prices at the SERC have dropped 23 percent, over this four-day trading period, from \$36.76 per megawatthour on September 19 to \$28.14 per megawatthour on September 25.

Prices in the Northeast have been decreasing for the past several trading days as Tropical Storm Isidore was forecast to bring rain and cool weather to the region. Prices at NEPOOL have dropped from a high of \$54.38 per megawatthour on September 23 to \$42.63 per megawatthour on September 25. At the PJM West, prices have been decreasing for three straight trading days to \$26.86 per megawatthour on September 25. New York Zone J, New York City, prices have also dropped for three straight trading days to \$51.50 per megawatthour.

Over the past seven days, the average price at all trading centers has ranged between \$33.48 and \$37.89 per megawatthour.

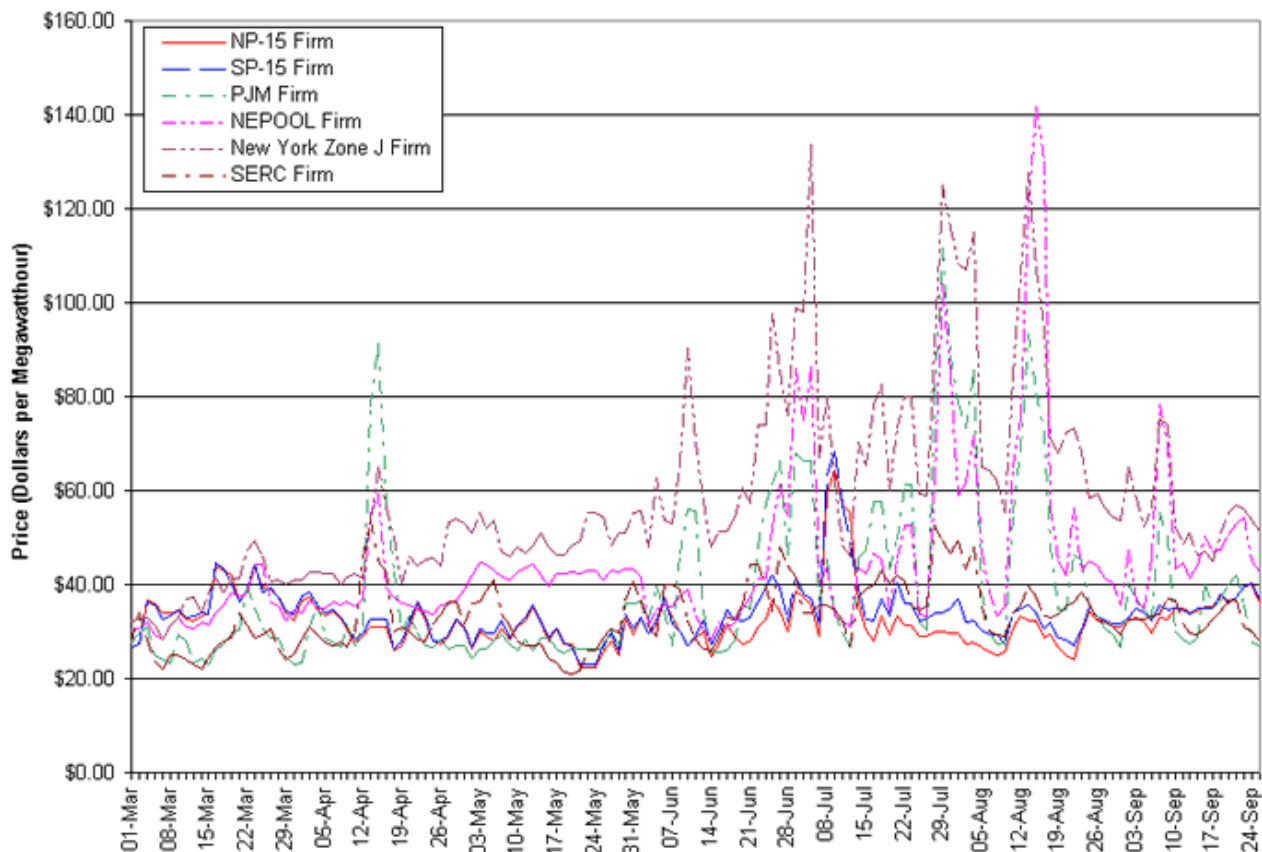
U.S. Regional Electricity Prices at Major Trading Centers (Dollars per megawatthour)

Trading Centers	Date							Price Range		
	9/17/02	9/18/02	9/19/02	9/20/02	9/23/02	9/24/02	9/25/02	Max	Min	Average
COB	30.00	30.36	29.35	31.35	32.34	31.46	30.13	32.34	29.35	30.93
Palo Verde	32.65	34.90	31.98	33.62	36.19	35.30	33.63	36.19	31.98	34.14
Mid-Columbia	25.54	24.66	29.35	25.43	25.48	25.63	25.36	29.35	24.66	26.25
Mead/Marketplace	35.29	37.54	34.58	36.29	38.69	38.65	36.20	38.69	34.58	36.88
4 Corners	32.05	34.47	32.14	33.18	35.54	34.84	33.50	35.54	32.05	33.84
NP 15	35.17	37.83	36.11	37.50	39.75	39.84	36.08	39.84	35.17	37.86
SP 15	35.07	37.93	36.34	37.34	39.63	40.23	36.67	40.23	35.07	38.04
PJM West	35.16	36.82	40.15	41.96	35.67	27.55	26.86	41.96	26.86	34.44
NEPOOL	47.00	47.38	50.83	53.00	54.38	45.13	42.63	54.38	42.63	49.19
New York Zone J	45.13	51.00	55.50	57.00	56.00	53.75	51.50	57.00	45.13	54.75
Cinergy	28.96	32.50	35.55	31.50	24.50	22.25	21.05	35.55	21.05	26.97
SERC	34.29	35.80	36.76	36.55	30.97	30.15	28.14	36.76	28.14	32.51
Average Price	34.69	36.77	37.39	37.89	37.43	35.40	33.48	37.89	33.48	36.32

Sources: COB, Palo Verde, Mid-Columbia, Mead/Market Place, Four Corners, NP-15, SP-15, PJM-West, NEPOOL, New York Zone J, Cinergy, and SERC trading centers. Used with permission from Bloomberg L.P. (www.bloomberg.com).

COB: Average price of electricity traded at the California-Oregon and Nevada-Oregon Borders.
Palo Verde: Average price of electricity traded at Palo Verde and the West Wing, Arizona.
Mid-Columbia: Average price of electricity traded at Mid-Columbia.
Mead/Market Place: Average price of electricity traded at Mead Market Place, McCullough and Eldorado.
Four Corners: Average price of electricity traded at Four Corners, Shiprock, and San Juan, New Mexico.
NP-15: Average price of electricity traded at NP-15.
SP-15: Average price of electricity traded at SP-15.
PJM-West: Average price of electricity traded at PJM Western hub.
NEPOOL Average price of electricity traded at Nepool.
New York Zone J: Average price of electricity traded at the New York Zone J - New York City.
Cinergy: Average price of electricity traded into the Cinergy control area.
SERC: Average price of electricity traded into the Southeastern Electric Reliability Council.

Average Wholesale Electricity Prices in the U.S.



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